Venture Philanthropy in Housing for Adults with Autism

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A good friend, Scott, and I were talking the other day about fundraising for our respective ventures and he posed a very interesting question - *"If someone wanted to donate a million dollars to LTO Ventures, what would you accomplish with that money?"* (note: I love questions like this.)

To understand his perspective, you have to know that he develops and operates restaurants and nightlife venues. He had just completed fundraising for a new establishment and despite a track record of successes, Scott described the process this time as brutal. His investors expect the money they put in to produce a specific rate of return and a specific outcome, and they have countless examples of similar establishments to use as comparative models.

His question was particularly timely for me because I've been doing a lot of thinking about, and research into, the financial model that will differentiate LTO Ventures from most other residential settings for adults with autism. Our financial model will be the backbone of our live/work/play campus communities. Unlike Scott's business, LTO Ventures has very few examples of comparative models.

It also may be useful to know that my background is in for-profit business and marketing, and most of the last 16 years have been spent in what I affectionately refer to as "high-risk, high-reward" engagements with venture-capital or similarly-funded startups. I made the career and life change to the nonprofit world and created LTO Ventures because of my daughter who is a teenager and has autism. You can read more about our story in a post on the Autism Speaks blog[1].

From my research into the LTO Ventures financial model, two funding concepts jumped out at me that I think bridge Scott's world with mine, and that I think will be critical to LTO Ventures' success – Venture Philanthropy and Philanthropic Equity. I'll explain each concept and how they relate to LTO Ventures a bit further down, but I want to provide a bit of background first.

New Innovators Rising to Meet the Demand

Eventually my daughter, and thousands of adults with autism will need places to live, jobs, and social-recreational outlets suited to their personal choice and individual needs.

Demand for housing for persons with intellectual or developmental disabilities, including autism, far outpaces supply and government money to pay for it. The residential services waiting list for Medicaid-eligible ID/DD/ASD Americans has grown 71 percent since 2000[2], and it is forecasted to worsen as 500,000 persons under age 21 with autism reach adulthood by 2020[3]. The good news – innovative new providers are entering the market at an increasing rate to fill the gap (see "Communities to Know" on our website[4]).

The philosophical emphasis of disability housing traditionally has been more on care-taking and maintenance, versus advancing the skills and abilities of individuals with the goal of enabling them to transition to settings that provide as much independence as they desire and can handle. Among providers, traditional and innovative, this emphasis is evolving but the perspective and criteria of funding sources public and private are not evolving fast enough to keep pace.

The people behind the newest and most innovative projects increasingly are parents of children with autism who have looked at the available options and funding, and decided their kids deserve something better or different. They also don't think they can wait around for government funding that may never happen.

This means more projects are being developed by people who are not housing professionals, but business people personally invested in the product they are creating. With that they bring new approaches to design, programming, sustainability, and funding. And they also bring an emphasis on return on investment (ROI) and outcomes.

Large Checks Instead of Bake Sales

Many new projects and models for residential settings serving adults with autism are 501(c)(3) nonprofit organizations, LTO Ventures included. Most of these nonprofits rely to varying degrees on charitable contributions to fund development of the project, purchase of the land, construction of the buildings, and ongoing operational costs.

Most charitable fundraising in my mind breaks down into two basic categories that I refer to as “Retail” and “Wholesale.” Others might say grassroots or individual, and institutional or corporate. The point is the same. I think this is especially true at the local level and with newer nonprofits.

“Retail” fundraising is characterized by walk events, themed dinners, casino nights, bake sales, etc. Great for awareness, OK for dollars, but disconnected from outcomes. These funds typical end up in general operating funds to cover administration, overhead, programs and services.

“Wholesale” fundraising is 5- and 6-figure checks that come from established relationships between donors and charities, generally cultivated year-round and over many years. These gifts may come with a specific plan or assignment, and often they are major gifts tied to capital campaigns.

Big ideas require serious money. The challenge and scale of providing innovative new residential setting models for adults with autism that also provide employment and a social component is enormous. Projects that plan to provide for as few as a 24 persons or as many as 100+ in a single setting require several million dollars to acquire land, develop designs, obtain approvals, construct facilities, and fund operating budgets.

Success is dependent on charitable giving. But the nature of the giving community and its approach to giving is evolving. Therefore, we must evolve how we attract, utilize and measure the outcomes of our philanthropy-based funding efforts.

Philanthropy is Changing

A new generation of philanthropists is going through a period of self-realization about the impact their fortunes can make. In part this is because they are earners who created, instead of inherited, the wealth they want to share. It also is true that the Internet gives them real-time access to information about causes that need their money, and channels through which to contribute it.

In her new book[5], Giving 2.0, Laura Arrillaga-Andreesen, the daughter of a real-estate billionaire and wife of an Internet billionaire, writes:

> *"…giving feels good. But feeling good in the moment doesn't necessarily accomplish our greater goal—making the world a better place. Too often the warm glow that drives us to give is not backed by knowledge, research, and strategy. We write checks, but we rarely find out how our money is used."*

Deanna Ackerman, chief executive of Advanced Development Executives LLC[6], a consultant to charities based in Henderson, Nevada. said in a *Wall Street Journal* online interview[7]:

> *"The charity needs to let the prospective donor know specifically how the money will be used, she says, and then, most of all, follow up and communicate with the donor on how the money was put to work."*

Charles Bronfman and Jeffrey Solomon, chairman and president, respectively, of the Andrea and Charles Bronfman Philanthropies[8], and authors of The Art of Giving: Where the Soul Meets a Business Plan, said in a *Wall Street Journal* online interview[9]:

> *"Countless individuals practice their philanthropy like investors: They collect data, they measure results, and they constantly strive to improve their charity's performance. A magical alignment occurs when philanthropists and their causes share the desire for a return on investment. As we embrace the next generation of philanthropists, who are coming into their own in this information age, the field will need to be responsive to them."*

So in this new environment of giving, let's examine the concepts of Venture Philanthropy and Philanthropic Equity and see how they apply to funding nonprofits, entities that provide housing for adults with autism, and LTO Ventures.

What is Venture Philanthropy?

Venture philanthropy is generally defined as taking investment principles and practices from venture capital finance and technology business management and applying them to charitable giving. Robin Hood Foundation[10] in New York and Tipping Point Community[11] in San Francisco are considered the pioneers of venture philanthropy with their efforts focused on assisting programs in their respective communities that target poverty.

In venture capital, the VC firm raises money from investors into a fund in which the investors become limited partners. The purpose of the fund is to invest in private companies at various stages of their growth and in certain market segments to enable them to become successful. At the risk of oversimplification, success for the company is when it achieves the ability to operate and profit from its business without any further infusions of startup capital. For the VC firm, success is when it can produce a return to the fund and its limited partners of a multiple of the original investment through a liquidity event such as an initial public offering (IPO) or sale of the company.

The models for how venture philanthropy is applied have several variables, but typically are a function of the level of engagement of the funder (e.g. high, advisory or hands-off), and who performs that engagement (e.g. funder, fund manager or third-party). Some of the characteristics of venture philanthropy are willingness to back bold new ideas on a multi-year basis, focus on measurable results and pre-determined benchmarks, active funder involvement providing intellectual and human capital as well as financial, and a focus on capacity building instead of programs or general operating expenses.

The biggest difference between them, of course, is VC firms expect their return in cash, while venture philanthropy return on investment is measured in what a nonprofit achieves to benefit others. More on this later in this post.

What is Philanthropic Equity?

Philanthropic equity is a concept I found best developed by NFF Capital Partners[12], a subsidiary of the Nonprofit Finance Fund[13]. They describe it as:

> *"…funding that pays for the deficits incurred en route to sustainability. It allows an organization to build the capacity needed to deliver services in perpetuity. As the organization begins its campaign, philanthropic equity pays for start-up expenses like legal fees, additional equipment, and hiring new staff. Later, it can pay for reputation-building, like evaluation work that proves program effectiveness. It also pays for trial and error, as the organization learns how to attract long-term sustainable revenue, and helps create a risk capital reserve. When an enterprise becomes successful and sustainable – both programmatically and financially, philanthropic equity has done its job."*

The cornerstone to the NFF Capital Partners approach is their SEGUE accounting treatment, but I think it serves as a placeholder for a new way of thinking about measurement and outcomes:

> *"SEGUE stands for Sustainable Enhancement Grant. It is an approach that uses both nonprofit capital campaign techniques and for-profit venture capital concepts to underwrite nonprofit business plans. The SEGUE is based on the nonprofit concept of Social Return on Investment, or SROI, an interpretation of Return on Investment (ROI), its for-profit counterpart. NFF's SEGUE methodology is highly transparent, allowing investors to see exactly how their money is being used to significantly expand the ability of an organization to deliver on its mission in perpetuity. Investors can thus clearly see and track how their contributions result in something of enduring value: a strong, dependable mission-driven institution that improves people's lives, year in and year out."*

As someone who has been successful with large publicly-held corporations as well as Silicon Valley venture-funded startups, I find the NFF approach fascinating and one that applies directly to LTO Ventures' approach to funding. A great primer on the NFF approach can be found by reading their well-written FAQs[14]. I encourage you to visit their site and learn more about them.

Return on Investment (ROI) for a Nonprofit

To understand ROI as it relates to a venture capital fund, a great source is Fred Wilson, a venture capitalist and principal of Union Square Ventures in New York. Fred described ROI in a post on his blog. I've trimmed it down to make it a little less technical, but you can read the full post here[15].

> *"[What is] a good venture return? It depends entirely on the stage you invest in and your 'batting average.' In VC parlance, the batting average is the number of times you make a successful investment divided by the total number of investments you make. Let's call a 'successful investment' one that you get at least your money back. If you are a late stage investor…then your batting average is very close to 100%. You wait until the early stage risk (technology, team, market) is wrung out of a deal and you invest on a set of price and terms that almost insures you'll get your money back and you attempt to make three to five times your investment if everything works out right.*
>
> *"However, if you are an early stage investor (like our firm), then it is a different story. I've said many times on this blog that our target batting average is '1/3, 1/3, 1/3' which means that we expect to lose our entire investment on 1/3 of our investments, we expect to get our money back (or maybe make a small return) on 1/3 of our investments, and we expect to generate the bulk of our returns on 1/3 of our investments. The way I like to think about this is one deal returns the fund, another 3-4 deals returns it again, and the rest return it a third time to get to the 3x gross that a fund must hit to deliver good returns to the LPs [Limited Partners]."*

To understand ROI as it relates to a nonprofit organization (i.e. SROI), a great source is Mario Morino, co-founder and chairman of Venture Philanthropy Partners[16], and author of Leap of Reason: Managing to Outcomes in an Era of Scarcity, had this to say in a *Wall Street Journal* online interview[17].

> *"…there is a major difference between measuring the operations of a nonprofit and the social ROI produced by that organization. Operational measures which, for example, involve the percentage of a nonprofit's revenue that is used for administration and fundraising look outward. Some believe this is an indicator of an organization's efficiency or honesty. I suggest, however, that the more important point is whether the nonprofit can demonstrate that it succeeds. Social ROI calculations look outward at what a nonprofit does on behalf of others; this is the economic benefit to individuals and society caused by the nonprofit relative to the cost of the organization. Donors prefer to put money into nonprofits that can demonstrate effectiveness. Moreover, those who run nonprofits want to know that they are achieving what they set out to do. For both, social ROI is part of the answer."*

ROI for Housing for Adults with Autism

So what do we get if we mash-up Wilson's early-stage/late-stage model with Morino's social ROI premise and relate it to housing and employment for adults with autism?

I see the late-stage venture philanthropy candidates being the well-established group living arrangement or supported living providers like Jay Nolan Community Services[18] (CA), Ability Beyond Disability[19] (CT), and New Vista Community[20] (NV). These outstanding organizations have been providing services for many years to hundreds of intellectually- and developmentally-disabled and autistic individuals, have stable and experienced management teams and boards of directors, and focus their fundraising efforts on supporting current programs and services, and incrementally expanding proven models.

Their budgets also are heavily dependent on their resident's Medicaid waiver funds, Social Security income and/or Supplemental Security Income. Charitable contribution campaigns fill in the funding gaps, maybe 10-20 percent of their total budgets, and these donations produce a very predictable ROI.

The projects that fit Wilson's description of early-stage venture investment, as I said earlier in this post, are the newest and most innovative projects emerging from groups of parents of children with autism who have looked at the available options and funding, and decided their kids deserve something better or different. They also don't think they can wait around for government funding that may never happen, or is in insufficient and unreliable supply. Examples of these new models are Erik's Ranch & Retreats[21] (MN/MT), Echoing Hope Ranch[22] (AZ), nonPareil.Institute[23] (TX), The Villages at Noah's Landing[24] (FL), Sweetwater Spectrum[25] (CA), and LTO Ventures[26] (NV).

The social ROI from these intentional communities is generated as a product of their multi-dimensional models, but that ROI far exceeds the *"economic benefit to individuals and society"* that Morino contends is the true measure. These concepts also succeed and will be effective because they provide the promise of complete, fulfilling lives for their residents. They all combine larger-scale residential settings than typical group home providers, ranging from 16 to 100 per campus, thereby enabling social interaction, economies of scale and cooperative living benefits not possible in standalone residences. Each project has a revenue-generating business element from the "volun-tourism" at Erik's Ranch to the iPad/iPhone app development envisioned at nonPareil.Institute to the organic garden and orchard at Sweetwater, and the for-profit entrepreneurial companies at LTO Ventures.

From an economic standpoint, these communities offer substantial measurable outcomes as well. The lifetime costs for caring for and treating a person with autism in the United States is $3.2 million, with 80 percent of those costs being incurred after age 21, according to a 2006 publication titled *"The Lifetime Distribution of the Incremental Societal Costs of Autism[27],"* by Michael Ganz, assistant professor at the Harvard School of Public Health. Further, at the time of his article, he estimated the total lifetime costs of all persons with autism to be $35 billion. The costs include: in-home and community based supports; residential services and supports; employment supports and adult day services. The initial property costs (purchase or building costs of the actual residence) represent a relatively small expense when compared to the overall operating expenses of residential programs.

Planned residential communities, especially those that include employment, provide avenues to reduce the amount of government funding needed to support adults with autism. Many of these projects also are partially or fully private-pay settings. Most create opportunities for residents to earn salaries and wages they can use to pay for room and board, services and discretionary spending. Some go so far as to create and integrate businesses that generate profits that can be used to offset the operating costs of the community itself.

A community of 16 to 100, using Ganz's numbers, represents $51.2 to $320 million in lifetime costs, borne largely by the government, insurance and taxpayers. If one of these projects lowered those costs as a result of its model by 10-20 percent, the economic return on investment measured in Wilson's or Morino's terms is substantial.

Back to the $1 Million Question

This brings us back to the original question - *"If someone wanted to donate a million dollars to LTO Ventures, what would you accomplish with that money?"*

Presently, we are an early-stage venture philanthropy candidate. Our mission is not only to create a model for our communities, and to build and operate one or more of them, but also to create a "playbook" for our model so that it can be replicated in the U.S. or in countries outside the U.S.

A $1 million venture philanthropy contribution would accomplish:

1. **Engage Experts and Professionals**. It would complete the basic model with the paid input of subject matter experts and professionals including a lawyer, a CFO, and an architect/planner.
2. **Research/Site Visits**. It would complete the basic model with data and insights gained from visits to existing and planned developments around the U.S. and meetings with their innovators. This includes subject matter experts at authoritative autism, housing and disability employment organizations.
3. **Expand Leadership Team**. It would add business partners and startup entrepreneurs to our campus with the addition of a Business Developer. We would develop our campus care/staff environment with the addition of an Operations Director experienced with adults with autism and residential settings.
4. **Initiate Marketing**. It would build a candidate database of adults with autism who might choose to live in our community. These adults and their care teams would be part of a committee advising us on all aspects of the community.
5. **Create Jobs**. It would put adults with autism to work for minimum wage or better in real businesses.
6. **Board-building/Fundraising**. It would advance our business plan by raising the next round of fundraising; adding members to our board of directors; and, adding members to our advisory board.

Message for Venture Philanthropists

The LTO Ventures model won't appeal to every type of philanthropist. Getting involved in an early-stage planned community for adults with autism will take:

- Someone with lots of money
- Someone who funds lots of typical nonprofits, but has a taste for risk
- Someone who is curious to see for-profit methods applied to nonprofits
- Someone who has been touched directly or indirectly by autism – many projects are named after the children of the parents who created them

Virginia G. Breen, mother of three including two profoundly affected by autism, high-tech venture capitalist, and co-author of a book[28] about her autistic daughter Elizabeth, I Am in Here, wrote:

> *"Industry statistics show that two out of ten start-ups succeed, three out of ten have limited success, and half of the companies fail. The same can be said of our autism interventions. The process for gathering data and making a decision with imperfect information is eerily similar in venture investments and autism treatments. In both cases, I look to balance risk and reward. Just as there is no risk-free investment, there is no risk-free treatment for a child."*

1 http://blog.autismspeaks.org/2012/01/04/autisms-fly-over-population/
2 http://ltoventures.org/news/articlesop-ed/choice-v-olmstead/
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